HMC/CAH CONSOLIDATED, INC.
KANSAS CITY, MISSOURI

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

HMC/CAH CONSOLIDATED, INC.
TABLE OF CONTENTS
YEARS ENDED SEPTEMBER 30, 2010 AND 2009

LarsonAllen LLP

CPAs, Consultants & Advisors
www.larsonallen.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
HMC/CAH Consolidated, Inc.
Kansas City, Missouri

We have audited the accompanying consolidated balance sheets of HMC/CAH Consolidated, Inc. as of September 30, 2010 and 2009 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the management of HMC/CAH Consolidated, Inc. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HMC/CAH Consolidated, Inc. as of September 30, 2010 and 2009, and the results of its consolidated operations, changes in stockholders' equity (deficit), and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

LarsonAllen LLP

LarsonAllen LLP

St. Louis, Missouri
March 11, 2011

HMC/CAH CONSOLIDATED, INC.
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2010 AND 2009

ASSETS	2010	2009
CURRENT ASSETS		
Cash and Cash Equivalents	$ 2,460,269	$ 1,294,250
Restricted Cash	-	273,935
Patients Accounts Receivable, Net	13,943,535	8,300,932
Other Accounts Receivable	188,685	179,937
Estimated Third-Party Payor Settlements Receivable	1,240,000	1,741,000
Inventories	1,637,800	1,225,689
Prepaid Expenses and Other	1,021,997	586,628
Deferred Income Tax Benefit	-	90,364
Total Current Assets	20,492,286	13,692,735
ASSETS LIMITED AS TO USE	877,056	867,022
PROPERTY AND EQUIPMENT, NET	31,218,727	26,759,645
OTHER ASSETS		
Goodwill	5,763,527	2,502,364
Deferred Finance Costs, Net	688,054	266,170
Deferred Income Tax Benefit	-	65,437
Other Assets	28,335	32,085
Total Other Assets	6,479,916	2,866,056
Total Assets	$ 59,067,985	$ 44,185,458

See accompanying Notes to Consolidated Financial Statements

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	2010	2009
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 5,173,101	$ 2,966,375
Revolving Line of Credit	4,296,213	-
Short-Term Debt	1,027,695	1,130,000
Accounts Payable	11,568,311	5,893,672
Accrued Payroll, Benefits and Other Expenses	3,805,858	1,813,298
Accrued Interest Expense	452,158	52,991
Estimated Third-Party Payor Settlements Payable	1,255,000	1,537,000
Total Current Liabilities	27,578,336	13,393,336
LONG-TERM DEBT, NET OF CURRENT MATURITIES	35,858,774	25,903,521
OTHER LIABILITIES		
Construction Payable	2,042,596	4,420,918
Asset Retirement Obligation	235,480	235,480
Total Other Liabilities	2,278,076	4,656,398
Total Liabilities	65,715,186	43,953,255
STOCKHOLDERS' EQUITY (DEFICIT)	(6,647,201)	232,203
Total Liabilities and Stockholders' Equity (Deficit)	$ 59,067,985	$ 44,185,458

HMC/CAH CONSOLIDATED, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010	2009
REVENUES		
Net Patient Service Revenue	$ 68,847,232	$ 40,991,180
Other Revenue	1,177,974	1,295,516
Total Revenues	70,025,206	42,286,696
EXPENSES		
Salaries and Wages	31,580,954	18,856,806
Employee Benefits	7,594,590	4,129,691
Purchased Services and Professional Fees	12,132,595	7,424,551
Supplies and Other	14,236,236	10,028,607
Depreciation and Amortization	3,790,268	2,018,887
Interest	2,749,530	1,457,810
Provision for Bad Debts	8,915,097	3,218,600
Total Expenses	80,999,270	47,134,952
OPERATING LOSS	(10,974,064)	(4,848,256)
NON-OPERATING GAINS		
Investment Income	62,075	45,985
Grants and Contributions	322,809	288,657
Gain on Acquisition	1,197,154	253,928
Total Non-Operating Gains	1,582,038	588,570
NET LOSS	$ (9,392,026)	$ (4,259,686)

See accompanying Notes to Consolidated Financial Statements

HMC/CAH CONSOLIDATED, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
YEARS ENDED SEPTEMBER 30, 2010 AND 2009

		Preferred Capital Stock		Common Capital Stock		Total
	Deficit	Par Value	Additional Paid in Capital	Par Value	Additional Paid in Capital	Stockholder's Equity (Deficit)
BALANCE, SEPTEMBER 30, 2008	$ (3,699,518)	$ 75	$ 7,499,925	$ 6	$ -	$ 3,800,488
Common Stock Options Vested	-	-	-	-	320,151	320,151
Fair Value of Stock Purchase Warrants Issued	-	-	371,250	-	-	371,250
Series A Accumulative Dividends	(1,109,500)	-	1,109,500	-	-	-
Net Loss for the Year Ended September 30, 2009	(4,259,686)	-	-	-	-	(4,259,686)
BALANCE, SEPTEMBER 30, 2009	$ (9,068,704)	$ 75	$ 8,980,675	$ 6	$ 320,151	$ 232,203
Preferred Stock Issued	-	20	2,883,847	-	-	2,883,867
Common Stock Issued for Stock Options Exercised	-	-	-	5	-	5
Change in Fair Value of Stock Purchase Warrants	-	-	(371,250)	-	-	(371,250)
Series A Accumulative Dividends	(788,500)	-	788,500	-	-	-
Net Loss for the Year Ended September 30, 2010	(9,392,026)	-	-	-	-	(9,392,026)
BALANCE, SEPTEMBER 30, 2010	$ (19,249,230)	$ 95	$ 12,281,772	$ 11	$ 320,151	$ (6,647,201)

See accompanying Notes to Consolidated Financial Statements

HMC/CAH CONSOLIDATED INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$ (9,392,026)	$ (4,259,686)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:		
Provision for Bad Debts	8,915,097	3,218,600
Depreciation and Amortization	3,790,268	2,018,887
Gain on Acquisition	(1,197,154)	(253,928)
Fair Value of Stock Based Compensation	-	320,151
(Increase) Decrease in:		
Patients Accounts Receivables	(11,394,713)	(5,000,748)
Other Accounts Receivable	29,560	400,076
Estimated Third-Party Payor Settlements Receivable	561,256	77,198
Prepaid Expenses and Other	(25,144)	61,236
Increase (Decrease) in:		
Accounts Payable, Accrued Payroll, Benefits and Other Expenses	3,790,928	886,442
Estimated Third-Party Payor Settlements Payable	(563,920)	1,368,000
Net Cash Used by Operating Activities	(5,485,848)	(1,163,772)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Paid Under Asset Purchase Agreements, Net of Cash Received	(5,507,099)	(2,260,590)
Short-Term Advance	-	(300,000)
Deposits for Assets Limited as to Use	(10,034)	(283,612)
Purchase of Property and Equipment	(2,913,419)	(521,586)
Net Cash Used by Investing Activities	(8,430,552)	(3,365,788)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of Preferred Stock	2,883,872	-
Advances on Revolving Line of Credit, Net of Repayment	4,296,213	-
Short-Term Debt Issuances	635,000	1,130,000
Principal Payments on Short-Term Debt	(1,381,339)	-
Long-Term Debt Issuances	13,198,981	5,299,742
Principal Payments on Long-Term Debt	(4,292,732)	(2,608,570)
Fair Value of Stock Warrants Issued	-	371,250
Cash Paid for Finance Costs	(531,510)	(93,595)
Net Cash Provided by Financing Activities	14,808,484	4,098,827
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	892,084	(430,733)
Cash and Cash Equivalents - Beginning of Year	1,568,185	1,998,918
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,460,269	$ 1,568,185
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO CONSOLIDATED BALANCE SHEET		
Cash and Cash Equivalents	$ 2,460,269	$ 1,294,250
Restricted Cash	-	273,935
Total Cash and Cash Equivalents	$ 2,460,269	$ 1,568,185
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Period for Interest	$ 2,350,363	$ 1,424,393
Capital Lease Obligations Incurred for Equipment	$ 2,445,850	$ 2,218,385
Construction Payable	$ 2,042,596	$ 4,420,918

See accompanying Notes to Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

HMC/CAH Consolidated, Inc. was incorporated on May 15, 2007 in the state of Delaware and was capitalized on May 31, 2007 through a combination of Common Stock, Preferred Stock and Short-Term Debt issuances. The accompanying consolidated financial statements include the accounts and transactions of the HMC/CAH Consolidated, Inc. and its wholly owned limited liability companies and corporations, collectively referred to as the "Corporation".

The Corporation consists of HMC Management Company, LLC which is the operating segment of HMC/CAH Consolidated, Inc. and 20 critical access hospital acquisition companies. The Corporation acquires, operates and manages critical access hospitals. For the year ending September 30, 2010 and 2009 twelve and eight of the acquired companies were in operation, respectively. All intercompany transactions and balances have been eliminated in the consolidation.

Basis of Accounting

The consolidated financial statements are prepared on the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

Restricted Cash

As a condition of an asset purchase agreement the Corporation was administering the finalization of the third party payor settlements, on behalf of the seller, for reports with period and year ends prior to the effective date of an asset purchase agreement. As a part of the settlement transaction, the seller funded a reserve which was shown on the accompanying consolidated balance sheet as Restricted Cash and also as a current liability.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patients Accounts Receivable

The Corporation provides an allowance for uncollectible patient accounts. Patients are not required to provide collateral for services rendered. Payments for services are due upon the patient receiving the bill. All accounts are analyzed for collectibility based on the months past due and payment history. In addition, an allowance is estimated for accounts based on historical collection experience and review of the current status of the existing receivables of the Corporation. At September 30, 2010 and 2009 the allowance for uncollectible patient accounts was approximately $13,797,000 and $4,318,000, respectively.

Inventories

Inventory is valued at cost using the first-in, first-out method not in excess of market value. Market value is determined by comparison with recent purchases or realizable value.

Assets Limited as to Use

Assets limited as to use include assets restricted for mortgage and loan agreements.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements.

Deferred Finance Costs

Deferred finance costs represent amounts incurred for the issuance of debt agreements. At September 30, 2010 and 2009 deferred finance costs of approximately $875,000 and $320,000 are being amortized on the straight line basis over the life of the related debt. At September 30, 2010 and 2009, deferred finance costs are shown net of accumulated amortization of approximately $175,000 and $54,000, respectively. Amortization expense for the years ended September 30, 2010 and 2009 was approximately $110,000 and $49,000, respectively.

Goodwill and Intangibles

Financial accounting standards specifies criteria that certain intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. The standards require that goodwill and intangible assets with indefinite useful lives not be amortized, but are tested for impairment at least annually. The standards also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment.

Goodwill represents the excess of the purchase price over the fair value of the acquired net assets related to hospital acquisitions. As of September 30, 2010 and 2009, management has determined that goodwill is not impaired. Management has not identified any non-goodwill intangible assets as part of the acquisitions.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Asset Retirement Obligation

This represents an obligation to dispose of assets that are legally required to be removed at a future date. The obligation is recorded at the net present value using a risk-free interest rate and inflationary rate.

Stock-Based Compensation

Financial accounting standards require the Corporation to recognize expense for its stock-based compensation awards using either the fair value or intrinsic value method. Effective January 1, 2010 the Corporation converted from the fair value to the intrinsic value method of recognizing stock-based compensation expense.

Net Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Charity Care

The Corporation provides care to patients who meet certain criteria under its charity care policy without a charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify for charity care, they are not reported as revenue.

Income Taxes

The Corporation provides for income taxes in accordance with financial accounting standards, which requires the asset and liability approach be used to determine deferred income taxes. Deferred tax assets and deferred tax liabilities are recognized for the expected future consequences of temporary differences between the financial reporting basis and the tax basis of assets and liabilities. A valuation allowance is provided when it is more likely than not that a deferred tax asset will not be realized.

The Corporation’s wholly owned limited liability companies and corporations are treated as partnerships for federal income tax purposes. Consequently, federal income taxes are not payable by, or provided for, by the wholly owned limited liability companies and corporations. The Corporation is taxed individually on the wholly owned limited liability companies and corporation’s earnings.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Uncertain Tax Positions

The Corporation applies the income tax standard for uncertain tax positions. As a result of the Corporation evaluates its tax positions and determined it has no uncertain tax positions as of September 30, 2010 and 2009, respectively. The Corporation's 2007 through 2009 tax years are open for examination by federal and state taxing authorities.

Subsequent Events

In preparing these consolidated financial statements, management has evaluated events and transactions for potential recognition or disclosure through March 11, 2011, the date the consolidated financial statements were available to be issued.

NOTE 2 ASSET PURCHASE AGREEMENTS

The Corporation acquired four critical access hospitals during each of the years ended September 30, 2010 and 2009, respectively. The following table summarizes the assets acquired, liabilities assumed and purchase price under the agreements:

	2010	2009
Assets Acquired Under Purchase Agreements:		
Cash and Cash Equivalents	$ 373,860	$ 121,229
Patient Accounts Receivables, Net	3,162,987	2,653,257
Other Receivables	38,308	91,556
Estimated Third Party Settlements Receivable	60,256	972,000
Inventories	508,019	507,218
Assets Whose Use is Limited	-	583,410
Prepaid Expenses and Other	154,766	291,188
Property and Equipment	5,160,142	16,882,924
Goodwill	3,128,571	2,246,755
Total Assets Acquired Under Purchase Agreements	$ 12,586,909	$ 24,349,537
Liabilities Assumed Under Purchase Agreements:		
Accounts Payable	$ 2,989,396	$ 2,659,743
Accrued Payroll, Benefits and Other Expenses	1,154,816	693,306
Estimated Third Party Payor Settlements Payable	281,920	168,000
Short-Term Note Payable	-	300,000
Long-Term Debt	1,082,664	17,892,741
Total Liabilities Assumed Under Purchase Agreements	$ 5,508,796	$ 21,713,790
Net Purchase Price of Agreement	$ 5,880,959	$ 2,381,819
Gain on Acquisition	$ 1,197,154	$ 253,928

Other consideration for the purchases included the Corporation's commitment to commence construction of replacement facilities or medical office buildings and achieve substantial completion within a certain period of time.

The agreements also include commitments to certain public interest covenants regarding services, indigent care, financial admission policies, participation in government reimbursement programs and other requirements.

NOTE 2 ASSET PURCHASE AGREEMENTS (CONTINUED)

Prior Acquisitions

Additionally the Corporation has entered into asset purchase agreements previous to fiscal year end 2010 and 2009 for the purchase of four other critical access hospitals. The agreements also included commitments to certain public interest covenants regarding services, indigent care, financial admission policies, participation in government reimbursement programs and other requirements.

If the Corporation fails to substantially comply with the public interest covenants or dissolves without a successor to carry out the terms and conditions of the agreement all ownership and facilities associated with the business, can revert back to the seller.

One of the prior acquisitions included a requirement that within three years from the effective date, the Corporation must develop a replacement facility which is licensed, certified and in operation as a critical access hospital or shall pay an amount equal to seven hundred thousand dollars ($700,000); provided, that if the Corporation has been prevented from opening a replacement facility prior to such time due to the failure to receive any required order or consent, such failure not being due to the Corporation’s negligence or willful misconduct, such time period shall be extended for an additional twelve months. As of September 30, 2010 this liability is not reflected in the financial statements as management believes the Corporation will fully comply with the timing requirements.

NOTE 3 NET PATIENT SERVICE REVENUE

A summary of the payment arrangements with major third party payors follows:

Medicare

The acquisition companies (the Hospitals) are designated as Critical Access Hospitals (CAHs) and receive reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospitals.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under various methodologies depending on the particular state in which the Hospital is located. In some circumstances the Hospitals are reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Hospitals and audits thereof by the Medicaid fiscal intermediary. Other states reimbursement includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

Other

The Hospitals have also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 48% and 12% and 51% and 6%, respectively, of the Corporation's net patient revenue for the years ended September 30, 2010 and 2009. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of net patient service revenue and revenue adjustments for the years ended September 30, 2010 and 2009 is as follows:

	2010	2009
Total Patient Service Revenue	$ 122,162,807	$ 73,746,080
Contractual Adjustments:		
Medicare	22,573,420	15,637,439
Medicaid	11,236,408	6,625,150
Other	19,505,747	10,492,311
Total Contractual Adjustments	53,315,575	32,754,900
Net Patient Service Revenue	$ 68,847,232	$ 40,991,180

NOTE 4 PATIENTS ACCOUNTS RECEIVABLE

A summary of patients accounts receivable as of September 30, 2010 and 2009 is as follows:

	2010	2009
Receivables from Patients	$ 14,879,802	$ 5,240,740
Receivables from Medicare	3,925,383	2,745,374
Receivables from Medicaid	2,169,462	983,278
Receivables from Other Third-Party Payors	6,765,888	3,649,540
Total Patient Accounts Receivable	27,740,535	12,618,932
Less: Allowance for Uncollectible Accounts	(13,797,000)	(4,318,000)
Patient Accounts Receivable, Net	$ 13,943,535	$ 8,300,932

NOTE 5 ASSETS LIMITED AS TO USE

The composition of assets limited as to use at September 30, 2010 and 2009, is set forth in the following table:

	2010	2009
Restricted Under Debt Agreements:		
HUD Mortgage Reserve Fund	$ 795,752	$ 785,906
Sun Finance Debt Reserve Fund	71,285	71,107
Debt Service Reserve Fund	10,019	10,009
Total Assets Limited as to Use	$ 877,056	$ 867,022
Composition of Assets Limited as to Use:		
Cash and Cash Equivalents	$ 877,056	$ 867,022

NOTE 6 PROPERTY AND EQUIPMENT

A summary of property and equipment as of September 30, 2010 and 2009 is as follows:

	2010	2009
Land and Land Improvements	$ 1,706,582	$ 1,569,223
Buildings and Improvements	17,065,076	16,511,889
Equipment and Fixtures	14,391,524	6,964,380
Construction in Progress	4,642,382	4,477,187
	37,805,564	29,522,679
Less: Accumulated Depreciation and Amortization	(6,586,837)	(2,763,034)
Property and Equipment, Net	$ 31,218,727	$ 26,759,645

Construction in progress as of September 30, 2010 and 2009 primarily consists of costs incurred for the planning of replacement facilities. The projects are in the planning phase and the expected total cost is approximately $55 Million. Financing options are currently being reviewed as of the audit report date.

NOTE 7 REVOLVING LINE OF CREDIT

Effective April 12, 2010, the Corporation entered into a revolving line of credit agreement to provide up to $6 Million of financing for the repayment of outstanding debt and working capital. The borrowing base is equal to the net collectible value of eligible accounts receivable net of specific reserves identified by the lender. The line bears interest at a rate of Libor plus 5.25% and is due on the first day of the month.

The agreement requires the Corporation to maintain a lock box for collection of eligible accounts receivable and transfers be made to the lender on a daily basis. The line of credit matures on April 12, 2013 at which time the entire balance of the line will be due. As of September 30, 2010 the Corporation has advanced $4,296,213 of the available line of credit which is secured by approximately $8,700,000 of the Corporation's patient accounts receivable on the consolidated balance sheet.

NOTE 8 SHORT-TERM DEBT

Description	2010	2009
Citizens Bank, N.A., promissory note dated December 1, 2008, secured by specific assets and equipment, at a variable rate of interest based on the Wall Street Journal Prime Rate, currently due	$ 700,000	$ 1,000,000
HPCG Hospital Investment, LLC working capital note agreement dated September 14, 2009, in accordance with the Master Funding and Amended and Restated Credit Agreement, paid in full in 2010	-	130,000
North Carolina Baptist Hospital promissory note dated April 29, 2010, twelve monthly payments of $20,807, due April 25, 2011, at a rate of 5%	143,610	-
Yadkin County, North Carolina promissory note dated April 1, 2010, due on demand and interest payable monthly at a rate of 5%	149,085	-
Other	35,000	-
Total Short-Term Debt	$ 1,027,695	$ 1,130,000

NOTE 9 LONG-TERM DEBT

A summary of long-term debt as of September 30, 2010 and 2009 is as follows:

Description	2010	2009
Notes Payable under the Master Funding and Amended and Restated Credit Agreement with HPCG Hospital Investment, LLC, due in lump sum payment with quarterly interest payments at a rate of 11%, collateralized by Deeds of Trust, due December 2014	$ 13,233,992	$ 5,549,747
Note Payable to LNV Corp, monthly payments of approx. $47,000 including interest adjusted quarterly to prime plus 1.5%, secured by a real estate deed of trust and 90% guaranteed by the USDA, refinanced subsequent to year end, see Note19	7,317,960	7,544,472
Note Payable to the U.S. Dept of Housing Urban Development (HUD), monthly installments of $50,570, including interest at 6.25%, secured by buildings, property and equipment, insured by the HUD, Section 242 Program, due March 2030	6,815,282	6,990,192
Payment Agreements to the Medicare program for cost report settlements, monthly payments ranging from $465 to $37,968, interest at rates of 11.250% to 12.125%, due September 2011 through October 2014	2,611,816	1,946,647

NOTE 9 LONG-TERM DEBT (CONTINUED)

Description (Continued)	2010	2009
Bridge loan payable to CFG Community Bank, due in lump sum payment with monthly interest payments at a rate of 7%, collateralized by first priority lien and security interest in property, due March 31, 2012	2,502,710	-
Notes Payable to Citizens Bank, N.A., monthly payments ranging from $7,617 to $15,144 and a final estimated balloon payment of $1,452,470, collateralized by various assets and a deed of trust, variable rates of interest, due September 30, 2011	1,875,661	2,302,794
Notes payable to Sun Finance, Inc. due in a lump sum payment with quarterly interest payments at a rate of 11%, collateralized by pledge agreements, due dates extended to January 24, 2012 subsequent to year end	1,250,000	441,167
Notes Payable to various lenders, monthly payments ranging from $649 to $10,473, interest at various variable and fixed rates, collateralized by various assets and security agreements, due April 2011 through February 2017	532,110	733,806
Capital Lease Obligations for equipment with monthly payments ranging from $147 to $11,000, various rates of interest from 1.7% to 12.9% and expiring in years through 2015	4,892,344	3,361,071
Total Long-Term Debt	41,031,875	28,869,896
Less Current Maturities	(5,173,101)	(2,966,375)
Long-Term Debt, Net of Current Maturities	$ 35,858,774	$ 25,903,521

Scheduled principal repayments on notes payable, payment agreements and capital lease obligations are as follows:

Year Ending September 30,	Notes Payable	Capital Lease Obligations
2011	$ 3,616,015	$ 1,840,070
2012	5,247,806	1,555,302
2013	14,137,837	1,289,144
2014	694,862	576,714
2015	557,430	263,375
Thereafter	11,885,581	-
Total	$ 36,139,531	5,524,605
Less: Amount Representing Interest on Obligations Under Capital Lease		(632,261)
Total		$ 4,892,344

NOTE 9 LONG-TERM DEBT (CONTINUED)

The Corporation had the following assets under capital lease included in property and equipment at September 30, 2010 and 2009:

	2010	2009
Movable Equipment	$ 5,715,826	$ 4,201,194
Less: Accumulated Amortization (included as Depreciation and Amortization on the accompanying Consolidated Financial Statements)	(2,190,808)	(1,021,650)
Total	$ 3,525,018	$ 3,179,544

Master Funding and Amended and Restated Credit Agreement

Effective August 13, 2009 the Corporation entered into a Master Funding Agreement and Amended and Restated Credit Agreement (the Agreement) with HPCG Hospital Investment, LLC (HPCG) which amended and restated the Second Lien Credit Agreement entered into August 15, 2008 between the Corporation and HPCG.

Under the agreement HPCG will provide “Committed Financing” to the Corporation that is anticipated to be used for the acquisition of hospitals, working capital and capital to build replacement facilities. The agreement stipulates that a total funding of $31,000,000 will be committed by HPCG which will consist of the following:

- Existing Loans – Under the Second Lien Credit Agreement HPCG advanced $4,825,000 to the Corporation under Tranche A Notes. The existing loans are considered to be in full force and effect under the amended agreement.
- Working Capital Financing – HPCG will provide the Corporation with $1,734,900 of working capital financing which was funded through September 2010.
- Acquisition Financing – HPCG will provide the Corporation with financing to acquire hospital facilities including, funds to acquire the business, purchase the replacement site, complete the work necessary to prepare and develop the replacement site and provide working capital needed for operations.
- Facility Replacement and Equipment Financing – Funds necessary for facility replacement and equipment financing are not considered a part of the committed financing, however HPCG will act in good faith and use its reasonable best efforts to provide financing under triple net lease arrangements.

Under the agreement HPCG was obligated to complete the committed financing no later than September 30, 2010 however that date shall be extended in 6 month intervals until the Corporation has provided HPCG with sufficient hospital acquisition opportunities. In the event that HPCG fails to provide the committed financing under the agreement it is not considered an event of default under the agreement, however HPCG’s right to exercise warrants and to exclusively provide financing shall terminate. Funds provided under the existing loans, working capital financing, acquisition financing and the cost and equity portion of the facility replacement and equipment financing will be credited to the total committed financing.

NOTE 9 LONG-TERM DEBT (CONTINUED)

Master Funding and Amended and Restated Credit Agreement (Continued)

At the completion of the committed financing HPCG may also provide up to an additional $29,000,000 of additional financing under “Uncommitted Financing” in the agreement. HPCG is not obligated to provide the additional financing, however within 60 business days of the completion of the committed financing, HPCG can provide in writing an obligation to commit itself to the additional financing at which time the Corporation will become obligated to accept the additional financing.

The terms of the Agreement call for quarterly interest payments at a rate of 11% and one principal balloon payment on the maturity date, December 1, 2014. The Agreement further stipulates that the Corporation has the right to prepay the loans during the 2nd and 3rd loan years for a redemption price equal to 10% and 5% of the loans balance and 0% thereafter. In addition the Corporation has the ability to extend the maturity date for a period of one year for an extension fee of 1% of the outstanding loan balance.

The security for the Agreement includes collateral of the Corporation including mortgages or deeds of trust and other security interests subject to permitted exceptions relating to pre-existing liens to the Agreement.

As of the date of this report, the Corporation and HPCG are negotiating contract modifications related to the Master Funding and Amended and Restated Credit Agreements. The exact terms and conditions have not yet been agreed to, and negotiations are expected to continue into fiscal year ended September 30, 2011.

Restrictive Covenants

The provisions of the debt agreements described above contain various restrictive covenants related to financial and operational matters to be satisfied as long as the debt is outstanding. As of September 30, 2010 and 2009, the Corporation did not meet all of these requirements. Subsequent to the year ended September 30, 2010 and 2009, the Corporation cured or received waivers related to the matters of non-compliance.

NOTE 10 WARRANT AGREEMENTS

HPCG Hospital Investment, LLC

Effective August 13, 2009 the Corporation entered into an Amended and Restated Warrant Agreement (Agreement) with HPCG Hospital Investment, LLC (HPCG) which amended and restated the Warrant Agreement entered into August 15, 2008 between the Corporation and HPCG.

Pursuant to the Agreement the Corporation issues common stock warrants to HPCG contemporaneously with each funding of committed financing. The number of warrants to purchase Series B preferred shares to be issued is equal to 10,303,250 (the number of shares of common stock deemed outstanding on the effective date) multiplied by a fraction, the numerator of which is the aggregate principal amount of each such funding of committed financing and the denominator of which is 60 million.

NOTE 10 WARRANT AGREEMENTS (CONTINUED)

HPCG Hospital Investment, LLC (Continued)

From and after the date that HPCG has fully performed its obligation to fund the committed financing in accordance with the Agreement, HPCG has the right to convert its common warrants into Series B warrants by exchanging its common warrants for Series B warrants representing the right to purchase an equal number of shares of Series B preferred stock, multiplied by a fraction, the numerator of which is the aggregate principal amount of financing under the Agreement represented by such Series B warrant and the denominator of which is 60 million. The warrants are exercisable for $.01 per share.

If HPCG fails to fully perform its obligation to fund the committed financing in accordance with the Agreement, or if HPCG otherwise fails to perform any of its other obligations under the Agreement, in each case (if such failure is not cured within 45 days) the Corporation may terminate the right of HPCG to exchange its common warrants for Series B warrants.

Sun Finance, Inc.

The Corporation has issued purchase warrants for 625,000 shares of common stock to Sun Finance, Inc. as additional consideration for promissory notes to the Corporation. The warrants are exercisable subsequent to the maturity date of the note, extended to January 24, 2012 subsequent to year end, and up to the 10th anniversary of the note agreement. The warrants are exercisable for $.01 per share.

During the year ending September 30, 2010 the Corporation reversed its issued Series A Preferred Share purchase warrants to Sun Finance, Inc. changing the warrants from Series A preferred shares to common stock warrants. This reversal resulted in a “Change in Fair Value of Stock Purchase Warrants” of $371,250 and was recognized in the consolidated statements of stockholders’ equity (deficit).

NOTE 11 CAPITALIZATION

The Corporation originally authorized 20,000,000 shares of common stock, par value of $0.00001, and 15,000,000 shares of preferred stock, par value of $0.00001. During the year ended September 30, 2009 the Corporation amended and restated the certificate of incorporation to increase the number of shares of common and preferred stock to 60,000,000 and 35,000,000, respectively. As of September 30, 2010 the Corporation has designated 15,000,000 shares of its preferred stock as Series A Preferred Stock and 20,000,000 shares as Series B Preferred Stock.

NOTE 11 CAPITALIZATION (CONTINUED)

The capital stock of the Corporation at September 30, 2010 and 2009 is as follows:

Description	2010	2009
Series A Preferred stock, par value $.00001 a share, authorized 35,000,000 shares, issued and outstanding 9,500,000 shares.	$ 95	$ 75
Series A Preferred Stock - Additional Paid in Capital and Series A Accumulative Dividends	12,281,772	8,980,675
Common Stock, par value $.00001 a share, authorized 60,000,000 shares, issued and outstanding 1,160,345 shares.	11	6
Common Stock - Additional Paid In Capital	320,151	320,151
Total Capital Stock	$ 12,602,029	$ 9,300,907

Corporate Dividend Policy

The Corporation's Series A Preferred Stock Agreement stipulates that the Series A Preferred Stock will carry an annual 8% cumulative dividend, payable upon a liquidation or redemption. No dividends or distributions can be made with respect to Common Stock until the Series A Preferred Stock has received its liquidation preference. Thereafter, for any other dividends or distributions, preferred participates with Common Stock on an as-converted basis. The Corporation intends to employ all available funds for the development of its business and, accordingly, does not intend to declare or pay any cash dividends on its Series A Preferred Stock or Common Stock in the foreseeable future. As of September 30, 2010 and 2009, approximately $1,900,000 and $1,110,000, respectively, of dividends have accumulated on the Series A Preferred Stock.

NOTE 12 STOCK BASED COMPENSATION

The Corporation established a stock option plan (the Plan) in which options to purchase the common stock of the Corporation have been issued to certain key employees. The Corporation reserved 1,290,673 shares of common stock under the Plan. As discussed in Note 1 the effective January 1, 2010 the Corporation converted from the fair value to intrinsic value method of calculating compensation expense under the share-based payment accounting standards.

Prior to January 1, 2010 compensation expense was recognized based on the fair value at the date the stock options were granted using the Black-Scholes-Merton option valuation model. The Corporation recognized approximately $320,000 of stock-based compensation expense for the year ended September 30, 2009. At September 30, 2009, total unrecognized compensation cost for unvested stock option awards was approximately $660,000.

NOTE 12 STOCK BASED COMPENSATION (CONTINUED)

Subsequent to January 1, 2010 compensation expense is being recognized based on the difference between the estimated fair value as of fiscal year end and the exercise price which is recorded as a liability to the Corporation. During the year ending September 30, 2010 the Corporation recognized no compensation cost as the estimated fair value was equal to the option exercise price.

Stock options may be granted as either incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or as options not qualified under Section 422 of the Code. Under the Plan, stock options will terminate on the fifth anniversary date of the grant. There were 694,978 options available for future awards at September 30, 2010 and 2009, respectively.

Stock option transactions during the years ended September 30, 2010 and 2009 were as follows:

	2010		2009	
	Options	Exercise Price	Options	Exercise Price
Outstanding at Beginning of Year	$ 1,093,090	$ 0.01	$ 1,093,090	$ 0.01
Granted	-	0.01	-	0.01
Exercised	(520,162)	0.01	-	0.01
Outstanding at Year End	572,928	$ 0.01	1,093,090	$ 0.01
Options Exercisable at Year End	231,347	$ 0.01	428,817	$ 0.01

Information with respect to stock options outstanding and exercisable at September 30, 2010 is as follows:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding at September 30, 2010	Weighted Average Remaining Contractual Life	Average Exercise Price	Number Exercisable at September 30, 2010	Average Exercise Price
$0.01	572,928	2.5 Years	$0.01	231,347	$0.01

Prior to January 1, 2010 the calculated value of each option granted was estimated on the date of grant during the year ended September 30, 2007 using the Black-Scholes-Merton option-pricing model with the following weighted-average assumptions used for options granted:

Expected Life	5
Dividend Yield	0%
Expected Volatility	60%
Risk-Free Interest Rate	4.86%

The rate of expected volatility was based on a publicly traded healthcare organization's rate of volatility as traded on the Option Exchange.

NOTE 13 OPERATING LEASES

The Corporation leases equipment and office space under non-cancelable operating lease agreements expiring through September 2014. Total expense for the operating leases amounted to approximately $301,000 and $95,000 for the years ended September 30, 2010 and 2009, respectively.

The following is a schedule by year of future minimum lease payments under the operating leases as of September 30, 2010, that have an initial or remaining lease term in excess of one year:

Year Ending September 30,	Amounts
2011	$ 359,335
2012	251,265
2013	221,852
2014	105,648

NOTE 14 RELATED PARTY TRANSACTIONS

J.E. Dunn Construction Group, Inc.

The Corporation has entered into contracts, with a Series A Preferred Stock Holder, J.E. Dunn Construction Group, Inc. (JE Dunn) for the construction of replacement facilities. As of September 30, 2010 and 2009 the Corporation has reflected liabilities to J.E. Dunn totaling $2,042,596 and $4,420,918 included in “Construction Payable” on the accompanying consolidated balance sheet. The amounts payable are expected to be repaid at the close of the financing related to the respective projects. The total expected costs of all projects are anticipated to be approximately $55 Million. Three executives of JE Dunn are members of the board of directors of the Corporation.

HPCG Hospital Investment, LLC

As a condition of the Master Funding Agreement and Amended and Restated Credit Agreement the CFO of HPCG was designated a member of the Corporation’s Board of Directors. As of the year ended September 30, 2010 and 2009 HPCG has advanced the Corporation $13,233,992 and $5,549,747, respectively, in term notes, included in Long-Term Debt on the accompanying consolidated balance sheet.

In addition, during the year ending September 30, 2009 HPCG advanced the Corporation $130,000 in short-term borrowings which were included in Short-Term Debt on the accompanying consolidated balance sheet.

The Corporation has incurred interest expense and issue discounts related to the loans of approximately $755,000 and $373,000 and $166,000 and $94,000 during the years ending September 30, 2010 and 2009, respectively, related to the advances.

In conjunction with the contract negotiations described in Note 9, the CFO of HPCG has taken a leave of absence from the Corporation’s Board of Directors.

NOTE 14 RELATED PARTY TRANSACTIONS (CONTINUED)

Sun Finance, Inc.

The Corporation has entered into loan agreements and purchase warrant agreements with Sun Finance, Inc. (Sun) related to financing for the acquisition of hospitals. A member of the Corporation's finance committee is a 50% owner in Sun. As of September 30, 2010 and 2009 the Corporation has reflected notes payable to Sun totaling $1,250,000 and $441,167 included in "Long-Term Debt" on the accompanying consolidated balance sheet, respectively. During the years ending September 30 2010 and 2009, the Corporation incurred interest costs of approximately $77,000 and $39,000 related to the loan agreements with Sun.

Insurance Broker

The Corporation utilizes a Series A Preferred shareholder as an insurance broker for health and workers' comp insurance. During the year ending September 30, 2010 the Corporation paid approximately $163,000 in fees to the shareholder.

NOTE 15 INCOME TAXES

The provision for income tax benefit and change in valuation allowance for the years ended September 30, 2010 and 2009 consists of the following:

	2010	2009
Current	$ -	$ -
Deferred	3,677,000	1,704,000
Change in Valuation Allowance	(3,677,000)	(1,704,000)
Total Benefit for Income Taxes	$ -	$ -

The Corporation's effective income tax rate is lower than what would be expected if the federal statutory rate were applied to income before income taxes primarily because of certain expenses deductible for financial reporting purposes that are not deductible for tax purposes.

Deferred income taxes are provided for certain income and expenses, which are recognized in different periods for tax and financial reporting purposes. Deferred income taxes result primarily from differences in the accounting for depreciation and amortization expenses for financial and tax reporting purposes. The Corporation also uses the allowance method for bad debts and other losses for financial statement purposes and the direct write-off method for tax purposes. Because of these and other differences, deferred income taxes have been reflected in the consolidated financial statements.

Valuation allowances of approximately $7,574,000 and $2,308,000 for deferred tax assets is deemed necessary at September 30, 2010 and 2009, respectively. The Corporation has net operating loss carry forwards of approximately $11,500,000 to reduce future income tax liabilities which will expire through 2024.

NOTE 16 DEFINED CONTRIBUTION PENSION PLAN

The Corporation has established a defined contribution pension plan under which employees become participants upon reaching age 21 and completion of one year of service. The Corporation matches employee contributions at 50% of the employees first 6% of elective deferral contributions. The contributions are deposited with the plan administrator who invests the plan assets in accordance with participant's directives. Total pension plan expense for the years ended September 30, 2010 and 2009 was approximately $206,000 and $159,000, respectively.

NOTE 17 CONCENTRATIONS OF CREDIT RISK

Patients Accounts Receivable

The Corporation grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from third-party payors and patients as of September 30, 2010 and 2009 was as follows:

	2010	2009
Medicare	28 %	33 %
Medicaid	16	12
Other Third-Party Payors	48	44
Patients	8	11
	100 %	100 %

FDIC Coverage

The Corporation maintains cash balances at several financial institutions. FDIC insurance coverage per depositor account is $250,000 and all non-interest bearing or low interest bearing accounts (less than .5%) are entirely covered by FDIC insurance. At times, cash balances may have been in excess of insured limits.

NOTE 18 COMMITMENTS AND CONTINGENCIES

Risk Management

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties.

Malpractice Insurance

The Corporation has insurance coverage to provide protection for professional liability losses on a claims made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently will be uninsured.

NOTE 18 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other

In the normal course of business, there could be various outstanding contingent liabilities such as, but not limited to, the following:

- Lawsuits alleging negligence in care
- Environmental pollution
- Violation of regulatory body's rules and regulations
- Violation of federal and/or state laws
- Etc.

No contingent liabilities such as, but not limited to those described above, are reflected in the accompanying consolidated financial statements. No such liabilities have been asserted and, therefore, no estimate of loss, if any, is determinable.

Healthcare Legislation and Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Corporation is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government

NOTE 19 SUBSEQUENT EVENTS

Bank Committed Financing

The Corporation has received loan commitments from several banks related to financing of approximately $55 Million for the construction of replacement facilities. The bank commitments are contingent upon several factors including personal guarantees, U.S. Department of Agriculture guarantees, bank due diligence reviews and availability of necessary levels of equity.

NOTE 19 SUBSEQUENT EVENTS (CONTINUED)

Debt Issuances

Subsequent to the year ended September 30, 2010 the Corporation entered into long-term and short-term debt agreements and advanced additional funds under existing agreements, including:

- Effective November 15, 2010, the Corporation entered into a promissory note agreement with a bank related to financing for the construction of a replacement facility in the amount of $8,940,000. The note is 90% guaranteed by the US Department of Agriculture. The note is contingent upon the Corporation's equity contribution of $2,235,000 which has not occurred in its entirety at the audit report date and the Corporation has not advanced any funds under the agreement at the audit report date.
- Effective December 6, 2010, the Corporation entered into a promissory note agreement with a bank related to refinancing of outstanding debt, funds to construct a medical office building, working capital and costs incurred with the issuance of the note in the amount of $9,300,000. The note is 90% guaranteed by the US Department of Agriculture. The note is to be repaid monthly over 25 years with interest at a rate of prime plus 2%.
- Effective January 24, 2011 the Corporation entered into promissory note agreements with various shareholders and corporate officers for $2,300,000 of working capital. The notes are due on demand at the six month anniversary of the issue date and bear interest at a rate of 11%. See Note 20.
- The Corporation entered into capital lease arrangements for medical equipment totaling approximately $1,074,000 to be paid over 60 months.

NOTE 20 OPERATIONS

For the years ended September 30, 2010 and 2009, the Corporation sustained operating losses of approximately $10,974,000 and $4,848,000 which has resulted in a net equity (deficit) of approximately ($6,600,000) and $232,000, respectively. As of September 30, 2010 the Corporation has cash and cash equivalents of approximately $2,400,000 and accounts payable and short-term debt of approximately $12,600,000.

In response to the operating losses and cash flow challenges subsequent to year end several existing shareholders and members of management advanced $2.3 Million in short-term borrowings to the Corporation. In addition, the Corporation is expected to receive approximately $1 Million in settlements for various cost reports filed over the next 2-3 months of the audit report date.

Management has developed and implemented extensive operational improvement plans which they believe will improve cash flow in the near term by reducing costs and increasing revenues. The plans implemented by management include the following:

- Adopted a stringent budgeting and monitoring process
- Conducted focused operational reviews at every facility and implemented significant changes that will reduce staffing and other expenses

NOTE 20 OPERATIONS (CONTINUED)

- Have begun the process of implementing a central business office that will bill and collect for all facilities with an emphasis towards greater efficiencies in the revenue cycle
- Continued efforts to centralize all accounting and cash management functions in the home office
- Reorganized home office staffing and duties which resulted in a reduction of staff related costs
- Modified employee benefit plans which is believed to reduce such costs by about 20%
- Added significant equipment at several locations so as to improve patient care and increase revenues. This includes 4 new 16 slice CT's, bone density machines, cardiac monitoring equipment and other similar additions.
- Added a medical office building in one facility and completed financing to add another medical office building at another facility
- Opened several new rural health clinics
- Continued efforts to add primary care and rotating specialists at many of the facilities.

Management believes that through the short-term financing provided subsequent to year end, the additional cash flow from cost report settlements and the operational changes identified above the Corporation will be able to stabilize cash flow in the short-term and improve profitability in future years.